SCERS GROWTH ASSET CATEGORY INVESTMENT POLICY STATEMENT

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Contents

A. GROWTH ASSET CATEGORY INVESTMENT OBJECTIVE

The Growth asset category seeks to achieve the following investment objectives:

- Attractive returns that tend to be generated during a high growth and low/moderate inflationary environment, and which tend to be correlated to equity and credit risk factors.
- A combination of capital appreciation, income, and cash flow generation.
- Moderate levels of diversification within the asset category.

Asset classes within the Growth asset category include:

- Global Equity
- Private Equity
- Public Credit
- Private Credit

Asset class target weights within the Growth asset category are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Global Equity	36%	**40%**	44%
Private Equity	8%	**11%**	14%
Public Credit	1%	**2%**	3%
Private Credit	3%	**5%**	7%
Growth Asset Category		***58%***	

Global Equity:
The investment objective of the Global Equity portfolio is to enhance total fund performance by investing in a diversified portfolio of publicly traded domestic and international equity securities across investment styles and market capitalizations, and through the use of passive and active externally managed strategies. The Global Equity asset class will strive to earn net returns in excess of the MSCI ACWI IMI global equity benchmark, primarily from the selection of investment managers. SCERS shall seek to maintain reasonable levels of aggregate risk, as measured through standard deviation and tracking error.

Private Equity:
The investment objective of the Private Equity portfolio is to enhance the total fund performance through investments in non-publicly traded securities. Private equity investments are illiquid and long-term in nature. To compensate for the illiquidity and the higher risks of the private equity market, the Private Equity portfolio is expected to generate a rate of return that exceeds the return of publicly traded equities over the long-term. Along with earning this 'illiquidity premium', SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.

Public Credit:
The primary objective of the Public Credit portfolio is to enhance returns relative to SCERS' broader fixed income exposure, through investments in high yield, bank loans, structured credit, event-driven investments, or distressed loans (at varying points in the cycle). Compared to traditional fixed income strategies, such as U.S. Treasuries and core plus, Public Credit strategies focus on more idiosyncratic and niche credit investments by virtue of possessing greater credit expertise and investment flexibility. The strategy helps achieve the objectives of moderate income generation and a source of return enhancement, but can also have higher correlations to equities than traditional fixed income strategies, and can detract from diversification and liquidity objectives that are associated with traditional fixed income strategies. However, Public Credit's correlation to equities can be mitigated with capabilities to hedge credit and other exposures through a credit cycle.

Private Credit:
The investment objective of the Private Credit portfolio is to produce attractive risk-adjusted returns and generate current cash flow through non-exchange traded lending strategies. Private Credit investments are illiquid and longer-term in nature than exchange traded fixed income investments. To compensate for the illiquidity, the Private Credit portfolio is expected to generate a rate of return that exceeds the return of exchange traded bank loans over the long-term. Along with earning this 'illiquidity premium', SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.

B. BENCHMARKS

The Growth asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Growth asset class benchmarks are as follows:

Global Equity:
- ❖ Performance of the Global Equity asset class will be evaluated against the MSCI ACWI IMI. The underlying sub-asset classes and segments, will be evaluated and compared against the following benchmarks. The Global Equity portfolio, sub-asset classes, and most of the underlying segments are expected to outperform their respective benchmarks over a period of greater than three years.

Sub-Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
Domestic Equity Large Cap	Russell 1000 Index
Large Cap Passive	Russell 1000 Index
Large Cap Active	Russell 1000 Index
Domestic Small Cap	Russell 2000 Index
Small Cap Active	Russell 2000 Index

Sub-Asset Class	Benchmark
International Equity	MSCI ACWI ex-US Index
International Equity Developed Markets	MSCI World ex-US Index
Developed Markets Large Cap Active	MSCI World ex-US Index
Developed Markets Small Cap Active	MSCI World ex-US Small Cap Index
International Equity Emerging Markets	MSCI Emerging Markets Index
Emerging Markets Active	MSCI Emerging Markets Index

Sub-Asset Class	Benchmark
Global/Unconstrained Equity	MSCI ACWI IMI Index

Private Equity:

SCERS Private Equity Portfolio	Benchmark	Time Period
Policy Index Benchmark	Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR	3 to 5 Years
Long-Term Objective	Russell 3000 Index + 3%	5 to 10 Years

- Over the medium-term (3-5 years), performance of the Private Equity portfolio is expected to exceed the return of the Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR for the respective vintage years. The Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR will also serve as SCERS' Policy Index.

- Over the long-term (5-10 years), the objective of the Private Equity asset class is to exceed the Russell 3000 Index by 3%, net of fees and expenses.

- Individual partnerships will be compared to the appropriate Cambridge Associates Universe category, adjusted for vintage year.

Public Credit:

SCERS Public Credit Portfolio	
Policy Index Benchmark	50% BofA ML US High Yield Master II and 50% CS Leveraged Loan Index

- ❖ Performance of the Public Credit portfolio is expected to exceed a blended benchmark of 50% BofA ML US High Yield Master II and 50% CS Leveraged Loan Index.

Private Credit:

SCERS Private Credit Portfolio	
Policy Index Benchmark	Credit Suisse Leveraged Loan Index + 2%

- ❖ The Credit Suisse Leveraged Loan Index plus 2% will serve as SCERS' Policy Index for Private Credit. Over all measurement periods, including while the program is being invested and after the program is fully invested, performance of the Private Credit portfolio is expected to exceed the return of the Credit Suisse Leveraged Loan Index by 2%, net of fees and expenses.

C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Global Equity:

Global Equity investments shall include equity securities purchased on listed U.S. stock exchanges, non-U.S. listed stock exchanges, over-the-counter (OTC) markets (including NASDAQ), and also includes equity securities of foreign companies traded on registered U.S. stock exchanges. Eligible investments shall include publicly-traded common stock and preferred stock. Eligible investments are also listed in the Investment Guidelines of the Investment Management Agreements (IMAs) of externally managed investment manager mandates.

Equity investments are managed through external investment manager strategies. SCERS' equity asset class exposures are diversified across a variety of styles, factors, and capitalizations:

- ❖ *Value Stocks:* Stocks that trade at a lower price relative to their fundamentals and are considered undervalued by investors. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and/or low price-to-equity ratio.

- *Growth Stocks:* Stocks of companies whose revenues and earnings are expected to grow at an above-average rate relative to the broad equity market. Growth stocks typically pay smaller dividends, as a growth company would prefer to re-invest retained earnings back into the company.

- *Core Stocks: Stocks of companies that are reliable and consistent growers, with predictable earnings that pay moderate levels of dividends. Core companies are financially healthy, and typically generate meaningful free cash flow.*

- *Other Style Factors:* Includes factors outside of growth, value, and core, including quality, momentum, market sentiment, and idiosyncratic factors specific to a company.

- *Large Capitalization Stocks:* Stocks of companies with a market capitalization value generally in the range of companies within the Russell 1000 Index. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

- *Small Capitalization Stocks:* Stocks of companies with a market capitalization value generally in the range of companies within the Russell 2000 Index. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Private Equity Investments:

Private equity investments primarily involve the purchase of unlisted, illiquid common and preferred equity, and to a lesser degree, subordinated and senior debt of companies that are typically privately held. Investment is authorized in vehicles and investment strategies that invest in a broad array of various securities, including but not limited to:

- *Buyout Investments* - Investments include acquisitions, recovery investments, and special situations (a category which represents a diversified strategy across many sub-categories). Investments are made across the market capitalization spectrum and typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company and may include the use of leverage in the form of debt. Investments are typically made in years one through six and returns typically occur in years three through ten. The potential for fund term extensions of up to three years is typically structured into most buyout funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- *Venture Capital Investments* - Investments include companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage, but with a heavier focus on companies in their earlier stage of development. Investments are typically made in years one through six and returns typically occur in years four through ten. The potential for fund term extensions of up to three years is typically structured into most venture capital funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- *Growth Equity Investments* – Investments with properties and features of both buyouts and venture capital, and which falls between each on the risk-return spectrum. Includes minority investments in more mature and profitable companies looking to further accelerate growth by expanding operations or funding an acquisition. Investments are typically made in years one through six and returns typically occur in years four through ten. The potential for fund term extensions of up to three years is typically structured into most venture capital funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- *Distressed Debt Investments* - Investments include the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or potential candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments are typically made in years one through five and returns typically occur in years three through ten. The potential for fund term extensions of up to three years is typically structured into most distressed debt funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- *Other Investments* - Investments include strategies that do not fall in the above three categories or do not justify a separate long-term allocation.

Public Credit:
Public credit strategies focus on more idiosyncratic and niche credit investments by virtue of possessing greater credit expertise and investment flexibility. The strategy helps achieve the objectives of moderate income generation and a source of return enhancement, and the strategy's correlation to equities can be mitigated with capabilities to hedge credit exposures through a credit cycle. The strategy includes primarily high yield corporate bond and bank loans, but can also include high grade corporate bonds, derivatives, government bonds, distressed credit, defaulted securities, and cash.

Private Credit:
Private credit is an illiquid, lending-oriented strategy focused on private loans to performing companies. It includes primarily debt investments, where an investor expects to receive principal and interest, with the majority of returns being generated from cash flow yield. Private credit is typically structured with

floating rate loans, with a spread over a benchmark rate like LIBOR/SIFOR, so cash flow income increases as interest rates increase, but can also include fixed rate loans. The average maturity of a loan is generally three to seven years; however, loans tend to be repaid prior to maturity, so the average life of the loans is generally three years. Most loans are senior secured loans, but they can range down the capital structure to junior/mezzanine loans. Loans are typically either sponsored private companies (private equity backed companies) or non-sponsored companies. Non-sponsored loans will typically have higher yields and stronger covenants than sponsored loans. Private Credit fund lives are typically 5 to 8 years, with investment periods between 2 and 3 years. Private Credit funds can recycle early loan payoffs during the investment period. Because of recycling, capital called can be as much as 150% of the commitment amount. The potential for fund term extensions of up to three years is typically structured into most Private Credit funds. Private Credit investments will be authorized in vehicles and strategies that invest in two sub-strategies, including:

- *Direct Lending* - Direct lending investments are directly originated, non-traded, performing loans made to primarily middle market companies. Direct lending investments primarily are comprised of senior secured debt, which can be secured by general corporate collateral or by a company's specific collateral. Equity participation can be structured into the loan, typically through warrants, but this is generally a small component of the strategy. Direct lending investments often utilize leverage (typically in the range of 0.5 to 2.5 times) at the fund level. Direct lending investments also have broadly diversified sector exposure and include a combination of sponsored (private equity backed companies) and non-sponsored borrowers, as well as purchases of loans in the secondary market. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.

- *Opportunistic Lending* - Opportunistic lending investments are also performing loans like direct lending (not distressed), but represent a broader range of investment types. Opportunistic lending includes mostly senior secured structures, but can also include subordinated debt structures, convertible debt, and structured equity. Opportunistic lending is often designated as an asset-backed lending strategy, where collateral comes in the form of specific assets such as receivables, inventory, or royalty streams. Opportunistic lending investments can have meaningful equity participation, depending on the structure. This is often in the form of warrants and convertible bonds, but can also include direct equity participation. Opportunistic lending investments typically utilize little to no leverage. Opportunistic lending funds generally can have a targeted sector focus, which can often include only one sector, and generally are targeted toward non-sponsor borrowers. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.

2. Risk and Diversification:

Growth asset category investments, like investments in most asset categories, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from expectations. The expected volatility of Growth asset category investments are often higher than in other parts of the SCERS portfolio. The investment risks associated with Growth asset category segments shall be addressed in several ways:

❖ ***Diversification by investment strategy and geography, including target allocation and ranges.***

The construction of the Growth asset category is important because a well-developed portfolio can add diversification to an asset category that is subject to higher levels of expected volatility. Distinguishing characteristics of the Growth asset category are: (1) a wide range of assets in both the public markets (liquid) and private markets (illiquid); (2) and a number of differing investment strategies across several underlying asset classes.

The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Global Equity

Target allocations and ranges for the Domestic Equity, International Equity, and Global/Unconstrained sub-asset classes are provided below:

Sub-Asset Class	Target Allocation	Target Allocation
Domestic Equity	**20%**	
Domestic Equity Large Cap	90%	
Large Cap Passive		50%
Large Cap Active		40%
Domestic Small Cap	10%	
Small Cap Active		10%

The Domestic Equity sub-asset class contains a combination of passive and active mandates and is separated between the large capitalization and small capitalization segments, with the objective to maintain diversification across investment styles (i.e., growth, value, core), sectors, and industries.

Sub-Asset Class	Target Allocation	Target Allocation
International Equity	**16%**	
International Equity Developed Markets	70%	
Developed Markets Large Cap Active		60%
Developed Markets Small Cap Active		10%
International Equity Emerging Markets	30%	
Emerging Markets Active		30%

The International Equity sub-asset class contains 100% active mandates, without any passive allocations, and is separated between developed markets and emerging markets segments. The developed markets are further broken out between large capitalization and small capitalization segments The emerging markets allocation is diversified across capitalization and styles. The International Equity sub-asset class seeks to maintain diversification across investment styles (i.e., growth, value, core), sectors, and industries.

Sub-Asset Class	**Target Allocation**	**Target Allocation**
Global/Unconstrained Equity	**4%**	
Global Equity		>/= 50%
Sector or Country Concentrated		</= 25%
Non Beta 1 (Long/Short)		</= 25%

The Global/Unconstrained sub-asset class contains a broad range of strategies with greater flexibility to generate excess returns above the broad Global Equity asset class benchmark (MSCI ACWI IMI). The primary allocation within the sub-asset class (at least 50%) is comprised of a 'Global Equity' segment that has the flexibility to allocate across a wide range of global equity markets, including U.S., developed international, and emerging markets.

The Global/Unconstrained sub-asset class also contains an 'Unconstrained' segment, comprised of strategies that are more benchmark agnostic compared to traditional public equity investments. Examples include sector and country specific strategies, and non-beta 1 strategies that are comprised of long and short exposures. 'Unconstrained' strategies are expected to predominantly invest in publicly traded equities, but can opportunistically allocate to other market segments (such as credit) if the manager believes it can earn equity like returns with less risk at certain points in a cycle. 'Unconstrained' strategies do not have a target allocation, but can comprise up to 50% of the Global/Unconstrained sub-asset class's target allocation.

Private Equity:

For the Private Equity asset class, the targeted and range of investment exposures to the various private equity investment sub-strategies and geographies are shown in the table below. These exposures should be measured on a fair value basis, once the Private Equity portfolio is fully invested. SCERS shall endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Private Equity asset class by adhering to these targets and ranges. It is expected that the non-U.S. investments will be further diversified across different regions.

SCERS Private Equity Portfolio Construction	Minimum	Target	Maximum
Total Private Equity Portfolio	8%	**11%**	14%
Sub-Strategy			
Buyout	35%	**55%**	75%
Venture Capital	10%	**20%**	40%
Growth Equity	10%	**15%**	35%
Distressed Debt	5%	**10%**	30%
Other	0%	**0%**	15%
Geography			
U.S.	70%	**80%**	90%
Non-U.S.	10%	**20%**	30%

SCERS will favor a diversified approach by allocating approximately 2%-6% of the total Private Equity target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 25 private equity managers with an expected range of 20-30 manager relationships. No single investment manager will exceed 10% of SCERS' total active commitment level, unless the vehicle is a fund of funds or separate account advisory relationship. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Private Equity Asset Allocation Structure.

Public Credit:

Public Credit is given a 2% target allocation, with a flexible mandate that primarily invests across high yield bonds and bank loans, but can also invest within structured credit, event-driven investments, or distressed credit (at varying points in the cycle). The strategy also uses macro hedges to protect capital during a down market.

Private Credit:

The targeted and range of investment exposures to the identified Private Credit investment sub-strategies and geographies are shown in the table below. These exposures should be measured on a fair value basis, once the Private Credit portfolio is fully invested. The primary geographic focus within the Private Credit portfolio will be in the United States, though the portfolio can also include non-U.S. investments to increase geographical diversification. It is expected that the non-U.S. investments will be further diversified across different regions.

SCERS Private Credit Portfolio Construction	Minimum	Target	Maximum
Total Private Credit Portfolio	3%	**5%**	7%
Sub-Strategy			
Direct Lending	50%	**65%**	90%
Opportunistic Lending	10%	**35%**	50%
Geography			
U.S.	65%	**75%**	100%
Non-U.S.	0%	**25%**	35%

SCERS will favor a concentrated approach, particularly within the direct lending segment, by allocating approximately 6%-25% of the total Private Credit target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 10 private credit managers with an expected range of 8-12 manager relationships. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Private Credit Asset Allocation Structure.

3. Asset Class Specific Risk Considerations:

Global Equity:

With public equity investments, there is an inherent risk that the actual returns will vary significantly from expected returns. Publicly traded equities generate significant levels of volatility (measured by standard deviation), and emerging markets tends to exhibit higher volatility than developed markets. Public equity investments also expose investors to high levels of equity market beta and the equity risk premium (ERP). Investment returns and risks within SCERS' Global Equity portfolio shall be measured according to all or some of the following measures:

- *Standard Deviation:* A measure of volatility which calculates the dispersion of returns from an average rate of return.

- *Sharpe Ratio:* A ratio that measures risk-adjusted performance. In particular, it measures a portfolio's excess returns over the risk free rate, and divides the result by the standard deviation of the portfolio returns.

- *Tracking Error:* The standard deviation, or volatility, of excess returns generated between a portfolio and that of a benchmark.

- *Information Ratio:* A risk-adjusted performance measure which calculates a portfolio's excess returns above a benchmark, and divides the result by the tracking error, or volatility of the excess returns.

- *Beta:* A measure of the sensitivity of a security or portfolio in comparison to the market as a whole. Beta measures the tendency of a security's or a portfolio's return to swings in the market.

The investment risks associated with the Global Equity portfolio shall be addressed in several ways:

- *Diversification by geography:* SCERS shall maintain a Global Equity portfolio that is diversified across geographies. Global equities shall encapsulate the domestic equity markets and the international equity markets, including both developed and emerging markets. SCERS' Global Equity portfolio, which is comprised of the domestic equity, international equity, and global/unconstrained sub-asset classes, will benchmark itself against the MSCI AWI IMI, which is diversified across global geographies.

- *Diversification across style:* SCERS' Global Equity portfolio shall seek to maintain style neutrality across the sub-asset classes. This includes an approximate equal weight across both the value and growth styles, and/or to core strategies that will inherently be style neutral across a market cycle.

- *Diversification across market capitalization:* SCERS' Global Equity portfolio invests across the large-capitalization and small-capitalization spaces. While the portfolio does not consist of any dedicated mid-capitalization mandates, exposure to mid-cap stocks is provided by SCERS' large and small capitalization strategies

- *Diversification across externally managed active investment mandates and passive investment mandates:* A key variable in the decision to use active mandates over passive mandates is the probability of active equity managers generating consistent excess returns over the benchmark in aggregate. The ability to generate excess returns depends on the region, market capitalization, and style that an investor has exposure to. Within domestic equities, domestic small cap has historically produced a higher probability of excess returns versus domestic large cap. International developed and emerging market equities have historically produced a higher probability of excess returns. Global/unconstrained strategies are expected to generate excess returns over the MSCI ACWI IMI.

- *Diversification by investment manager:* SCERS' Global Equity portfolio will seek to allocate capital to a variety of external investment managers in order to ensure diversification by sub-asset class, style, sector, and region, and to avoid concentration of capital to any specific manager or factor exposure. However, SCERS will seek to avoid manager redundancies through over-diversification to external investment managers. This will be accomplished by keeping track of portfolio characteristics and exposure levels of investment managers, including unnecessary overlap of individual security positions among managers.

- *Diversification by sector and industry:* SCERS' Global Equity portfolio shall achieve diversification across sectors and industries among its equity investment managers, and across the sub-asset classes. Individual investment manager guidelines shall call for the prudent allocation of assets across sectors and industries, to avoid over-concentration to any sector or industry. Individual strategies within the global/unconstrained sub-asset class can contain greater concentration at the sector/industry level.

Private Investments:

Private investments, (e.g. private equity and private credit), like investments in most asset classes, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from the return and amounts expected. The expected volatility of private investments in aggregate is high among major asset classes. The investment risk associated with private investments shall be addressed in several ways:

- *Diversification by geography and investment strategy*. SCERS will endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Growth asset category by investing across regions and strategies.

- *Diversification by vintage year.* SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results of the Growth asset category by investing across business cycles and vintage years. It is anticipated that SCERS will commit to private market funds (i.e., private equity and private credit) over multiple years, whereby the aggregate amount will be spread across the entire business cycle. This will serve to limit the exposure or risk to investing and relying on the performance of private funds in any given year of the business cycle. The Board will determine with SCERS' investment staff and consultant the funding allocation for the private segments of the Growth asset category each year in conjunction with its annual review of the Asset

Allocation Structure and Annual Investment Plan for asset classes such as Private Equity and Private Credit.

- *Diversification by industry or business sector.* SCERS will attempt to limit the potential for any one industry or business sector to negatively impact the long-term results by investing across a variety of industries.

- *Diversification by investment manager and general partner.* SCERS will endeavor to invest across a number of investment managers and limited partnerships to mitigate the potential negative impact of a concentrated portfolio of investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will vary with time and will be evaluated as part of the Growth asset allocation structure.

4. Investment Vehicles: The vehicles for investments within the Growth asset category reflect the broad scope of investments held within this asset category.

Global Equity and Public Credit:
Investment vehicle options for investing in the Global Equity and Public Credit asset classes include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships and institutionally investor-focused mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, transparency, and whether a commingled fund's investment guidelines are consistent with SCERS' investment objective.

Private Equity:
Investment vehicles for private equity investments are often commingled funds, structured as private limited partnerships, but may also include other entities such as limited liability companies or offshore corporations. Private equity limited partnerships are drawdown structures with management fees and carried interest. It is anticipated that the majority of SCERS' Private Equity investments will be made through direct investments into private equity limited partnerships.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in private equity partnerships on a discretionary basis. FoFs will own the underlying private equity partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to private equity limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

Private Credit:

A common investment vehicle for private credit investments is a commingled fund, structured as a limited partnership. Private credit limited partnerships are drawdown structures with management fees, and typically carried interest. Direct lending strategies generally have lower fees and carried interest than other private market strategies, and often only charge management fees on invested capital, not committed capital. Opportunistic funds can have higher management fees and carried interest given their higher return targets.

Separate accounts or fund of ones are also vehicles that can be used to invest in private credit. These vehicles are larger and customizable accounts with investment managers that have greater flexibility in the guidelines, greater input from Staff and consultant, and may have lower fees. Separate accounts and fund of ones generally have a size of $100 million or greater.

Another investment vehicle that is common in private credit is private business development companies (BDCs). Private BDCs have similar investment strategies as a private commingled fund, but have a differing structure. These vehicles can have lower fees, lower yields, and the potential to earn a return premium by going public through the IPO markets.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in private credit partnerships on a discretionary basis. FoFs will own the underlying private credit partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

5. Secondary Investments and Co-investments: Secondary investments are made when an investor purchases the limited partnership interest of another investor in an existing fund. Secondary investments also include sales of stakes in existing funds from one investor to another. A co-investment is a direct investment in an underlying portfolio company where a manager offers investors the opportunity to invest directly in an underlying company alongside the fund investment. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

   Neither secondary investments nor co-investments are considered separate investment strategies within the Growth asset category. For example, a secondary or co-investment could be in any of the asset classes, but will be most prevalent within the Private Equity and Private Credit asset classes.

Therefore, secondary and co-investments will be categorized according to the underlying strategy and geography and will conform to the guidelines outlined in the above section on risk and diversification. SCERS will seek to allocate to secondary investments and co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Growth asset category, and any underlying asset class, if any. Secondary sales will serve as a portfolio management and rebalancing tool for the Private Equity and private credit asset classes, and any secondary sales will be considered on a standalone basis. Secondary investments (both purchases and sales) and co-investments will be implemented according to the implementation protocols of the asset class in which it resides.

6. Investment Vehicle Concentration:

Global Equity and Public Credit:
SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

Private Equity and Private Credit:
SCERS shall not comprise more than 20% of any one investment vehicle at the initiation of the investment that is a limited partnership, limited liability company, or offshore corporation. The exception to this guideline is an investment in a FoF or a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will make reasonable efforts to ensure that it does not generate a majority of the firm's profits.

7. Liquidity:

Overall, the Growth asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Global Equity and Public Credit:
Investments in public equity and public credit markets offer varying degrees of liquidity depending on region, market capitalization for equities, and bond sector; however, liquidity is generally high relative to other asset classes. In public equities, larger capitalization stocks generally have higher average daily volumes and a greater number of trading intermediaries, and therefore offer higher liquidity levels than smaller capitalization stocks.

Among investment vehicles, investing through separate accounts typically offer the highest liquidity, as the underlying assets are owned by SCERS, and are held at SCERS' custodian. While the underlying assets of commingled funds offer high liquidity, there is the potential for less immediate liquidity when redeeming assets from a commingled fund. This liquidity can vary from immediate to monthly liquidity, depending on the structure of the fund.

Private Equity and Private Credit:
Private equity investments are illiquid and typically have long expected holding periods such as 10-13 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value.

Private credit investments are illiquid and typically have longer expected holding periods such as 5-12 years. While the majority of investments are tied to coupon payments and cash distributions are returned to investors on a quarterly basis, most investments are held until maturity or full repayment and selling an interest in a fund prior to maturity may result in realizing a sales price that reflects a discount to fair market value.

Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits, or lowering asset allocation targets to private equity or private credit investments. In order to better assess liquidity needs, a capital budget and cash flow forecast will be developed over a ten-year horizon and updated as necessary. The assumptions of this forecast are stress tested in the context of the total fund to assess the effect of worst case liquidity scenarios.

8. Distributed Securities: Within the Global Equity and Public Credit asset classes, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS' custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

SCERS shall avoid the direct receipt of distributed securities from individual private equity and private credit funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

9. Performance Evaluation:

- Performance of the Growth asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

- Individual investment vehicle performance will be evaluated on a monthly basis for Global Equity and Public Credit, and on a quarterly basis for

Private Equity and Private Credit, compared to the performance of respective peer universes and vintage years (where applicable).

- It is recognized that immature private investments within closed-end investment vehicles will ordinarily have a 'J-curve effect' whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

10. **Investment period to ramp-up:** It is recognized that it can take multiple years for segments of the Growth asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the Private Equity and Private Credit asset class ramp-up periods, exposures can be estimated using percentages of committed capital. During the ramp-up period for the Growth asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Growth asset category to the target allocation, using the designated Growth overlay proxy within the investment guidelines for the Overlay Program.

11. **Rebalancing to guidelines:** It is anticipated that the majority of changes to rebalance the private market components of the Growth asset category will be made on a long-term basis due to: (1) the general illiquidity of the private investments, which often have investment horizons of 10-15 years; and (2) the potential for discounts that can be applied if and when private holdings are liquidated in the secondary market. Accordingly, when these guidelines are exceeded, it is anticipated that reducing exposures will be carried out within a long-term time-frame and over a period that is as soon as practical to reflect the illiquidity of many Growth investment vehicles.

    SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Growth asset category. Rebalancing occurs quarterly, unless upper or lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Growth asset category's, and its underlying asset classes, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Growth asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Growth asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Growth asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

E. POLICY HISTORY

Date	*Description*
10-20-2011	Board adopted Hedge Fund asset class investment policy statement
07-10-2014	Board adopted Equity asset class investment policy statement
07-10-2014	Board adopted Fixed Income asset class investment policy statement
04-19-2017	Board adopted Private Equity asset class investment policy statement

06-21-2017	Board adopted Private Credit asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Growth asset category investment policy statement
03-20-2019	Amended Growth asset category investment policy statement
03-18-2020	Amended Growth asset category investment policy statement
06-15-2022	Amended Growth asset category investment policy statement